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GAIN Report Number:

Colombia

Coffee Annual

Increased Production and Exports in Prospect

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Report Highlights:

In marketing year (MY) 2009/2010, coffee production is expected to increase slightly by 136,000 bags, rebounding production to a forecast 11 million bags in MY 2010/2011. Coffee exports are expected to increase to 10.2 million bags in MY 2010/2011, proportionate to the recovery in production. The government support to rebound coffee production continues vis-à-vis the coffee renovation program, which guarantees coffee growers a minimum price.

Executive Summary:

Better weather conditions in 2010 have allowed coffee trees to receive more daylight, resulting in better flowering, which indicates that coffee yields will improve from 2009 levels. Production is expected to recover slowly during the first three quarters and be strongest in the fourth quarter of 2010. This production trend indicates that for the current 2009/2010 marketing year (MY) Colombian coffee production is expected to increase by only 150,000 60 Kg bags to 8.8 million 60 kg bags. Production in MY 2010/11 is projected to reach 11 million 60 kilo bags as production bounces back.

The damage done by strong rains and the increased humidity which created a greater-than-usual struggle with coffee rust in the coffee areas caused production to decrease dramatically in MY 2008/09.

Although total losses have yet to be quantified, the Coffee Federation (Fedecafé) is conducting a new census which will give an updated panorama of the Colombian coffee situation.

Coffee production started to rebound in April of this year and Fedecafé expects continued recovery, although at a slower pace until mid-year. Coffee harvesting is expected to accelerate during the last half of 2010 as a result of the improved conditions currently taking place.

With respect to exports, in MY 2009/2010, Colombian coffee exports are expected to increase by 300,000 60 Kg bags to 8.9 million 60 Kg bags and step up in MY 2010/2011 to 10.2 million 60 Kg bags as production recovers.

Commodities:

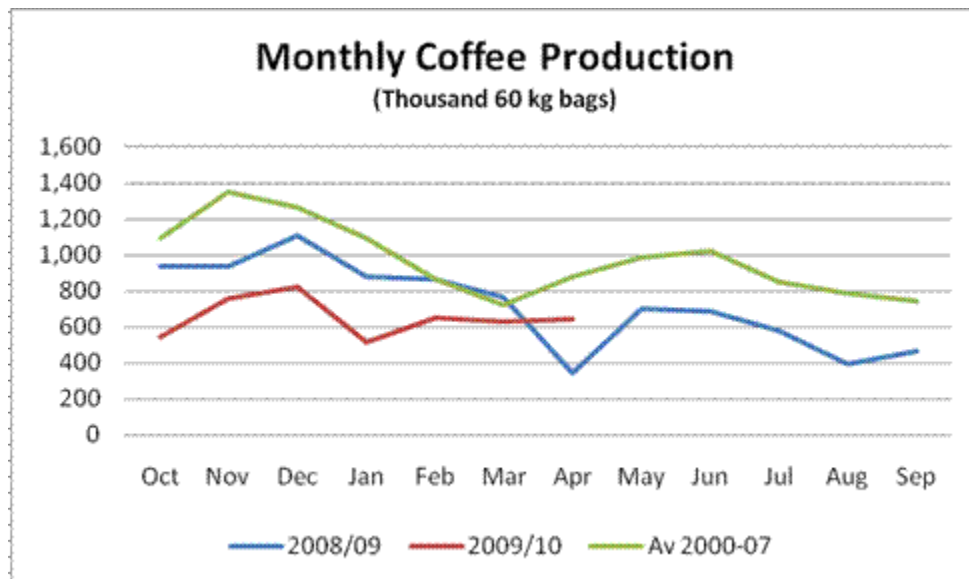
Coffee, Green

Production:

Colombian coffee production is expected to reach 8.8 million 60 kilo bags in MY 2009/10, up by 130,000 60 bags from previous year when Colombian production fell to its lowest point since year 1976. Coffee production is forecasted to reach 11 million bags in MY 2010/11 which is an indication that Colombia should return to average production levels (see graph 1).

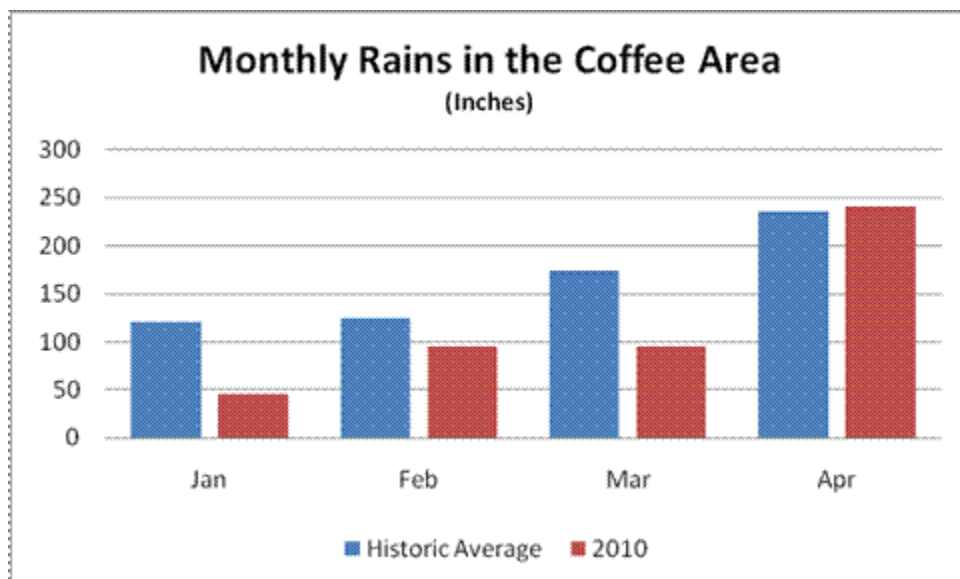
Colombian coffee production suffered from the *el niño* climate phenomenon in 2009, which along with the lack of fertilization and insufficient pest control, caused production to hit its lowest point in 30 years. However, April 2009 figures reflected a rebound which broke the downward tendency in production (see graph 1). If this production trend continues, it is likely that coffee production will reach 8.8 million bags by the end of MY 2009/10, increasing only 300,000 bags from MY 2008/09.

Graph 1.



The lower-than-average rainfall in early 2010 (see graph 2) made coffee plants started receiving more light time which favored the blossoming of the trees, and will facilitate the ripening of the beans, which should result in a higher volume of coffee during the first half of MY 2010/2011.

Graph 2.



The combination of better weather with the increase in fertilizer use and more renovated coffee trees, supported by government subsidies, are the fundamentals for Post's higher coffee production forecast of 11 million bags in MY 2010/2011.

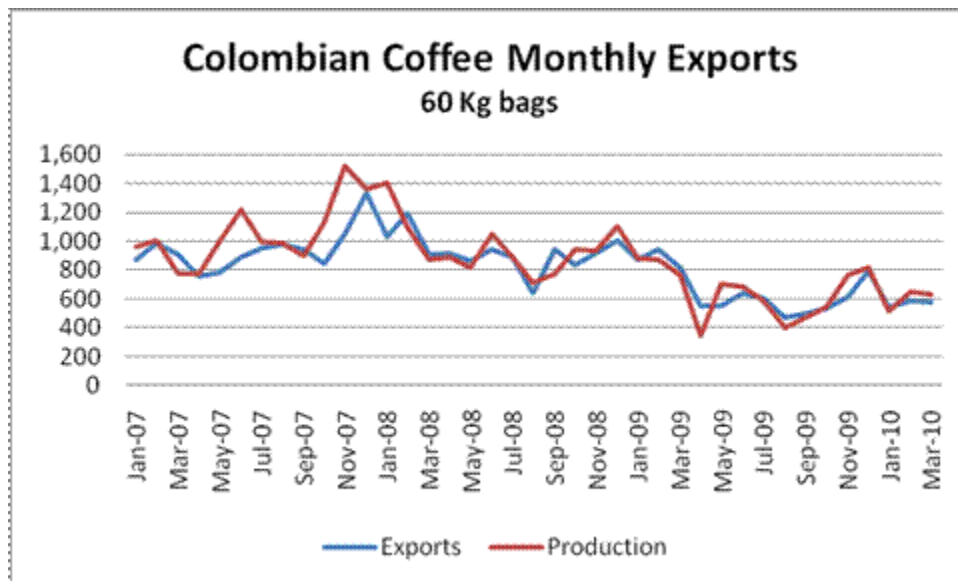
Consumption:

Colombian per-capita coffee consumption continues to be lower than other major producer countries. According to the International Coffee Organization (ICO) in 2009, Colombian per-capita consumption was 1.87 kg while Brazil was 5.69 kg, Honduras was 3.77 kg and Costa Rica was 3.16 kg. The FEDECAFE launched a new marketing strategy for its “Juan Valdez” stores to make them more profitable and to reach more consumers locally and abroad. However, local consumption is calculated to remain steady at around 1.2 million 60 kg bags.

Trade:

Colombian coffee exports move along with coffee production, leaving little room for keeping inventories (see graph 3). A large group of small producers, 90 percent with less than 6 acres, do not have the infrastructure to keep coffee stored and usually need to sell their product as soon as it is harvested to obtain their household income. The peso volatility against the dollar makes purchasing coffee for forward selling a risky business, since coffee is paid at the purchasing point at a price that reflects international coffee prices.

Graph 3.



Colombian exports are calculated to reach 8.85 million at the end of MY 2009/2010. The forecast for MY 2010/2011 is for expanded coffee exports to 10.2 million bags as coffee production expands.

The shortage of coffee production in Colombia lead to increased coffee imports to meet the local coffee industry's demand. Peru and Ecuador are the main suppliers of coffee to Colombia. Imports are expected to decline to 600,000 bags in MY 2010/2011 from the expected 740,000 bags in MY 2009/2010.

Stocks:

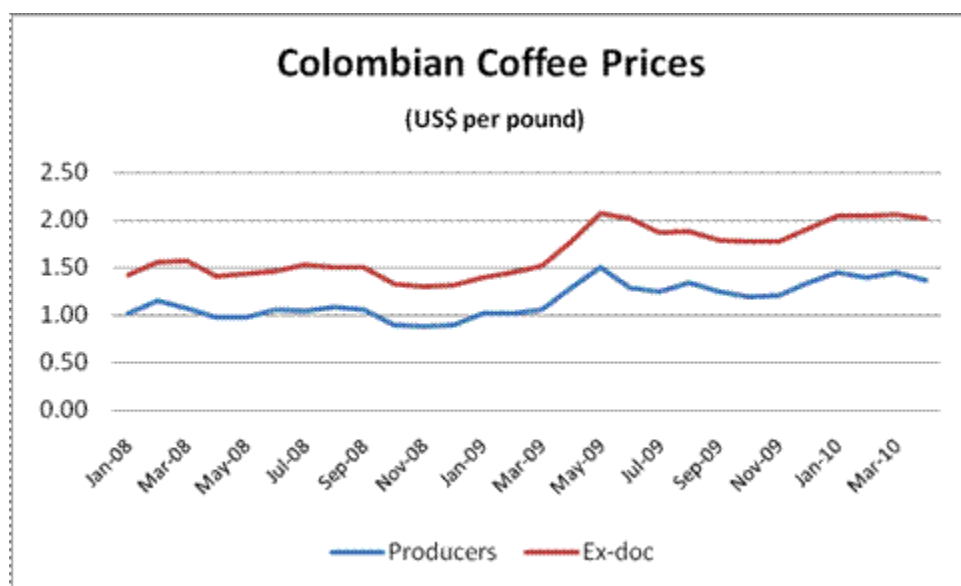
The Colombian coffee industry does not have a policy that supports or encourages keeping coffee stocks. Instead, future positions are taken mainly by private coffee traders who exert pressure on the coffee available to cover selling contracts. The reduction in coffee production caused stocks to be reduced to working inventory levels.

Marketing:

Prices

The price paid to coffee growers is set by Fedecafé on a daily basis and follows international prices minus transportation costs for the product to its destination. Growers receive a minimum guaranteed base price from the cooperatives, which varies depending on quality. Premiums are given for the highest quality, while lower-graded loads are discounted. Overall, the price paid to growers follows the international price at all times, which is a policy of the coffee federation (see graph 4).

Graph 4.



The international price for Colombian coffee has maintained high levels but the peso devaluated against the dollar by 9.6 percent in 2009. However, because of the decline in exports over the past year, growers didn't benefit much from higher prices. So far this year, the peso has appreciated against the dollar but international coffee prices have not improved, so growers' income so far has maintained only slightly higher levels vis-à-vis last year.

Author Defined:

| Coffee, Green Colombia | 2008/2009 | | | 2009/2010 | | | 2010/2011 | | |
|---------------------------|-----------------------------|-------------|-------------|-----------------------------|-------------|-------------|-----------------------------|-------------|-------------|
| | Market Year Begin: Oct 2008 | | | Market Year Begin: Oct 2009 | | | Market Year Begin: Oct 2010 | | |
| | USDA Official | Old Post | New Post | USDA Official | Old Post | New Post | USDA Official | Old Post | New Post |

| | | | | | | | | | |
|------------------------|--------|--------|--------|--------|--------|--------|--|--|--------|
| | | | | | | | | | |
| Area Planted | 780 | 780 | 780 | 780 | 780 | 780 | | | 780 |
| Area Harvested | 640 | 640 | 640 | 640 | 640 | 640 | | | 640 |
| Bearing Trees | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | 2,900 | | | 2,900 |
| Non-Bearing Trees | 1,070 | 1,070 | 1,070 | 1,070 | 1,070 | 1,070 | | | 1,070 |
| Total Tree Population | 3,970 | 3,970 | 3,970 | 3,970 | 3,970 | 3,970 | | | 3,970 |
| Beginning Stocks | 1,411 | 1,411 | 1,411 | 854 | 809 | 809 | | | 299 |
| Arabica Production | 8,664 | 8,664 | 8,664 | 9,000 | 11,000 | 8,800 | | | 11,000 |
| Robusta Production | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Other Production | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Total Production | 8,664 | 8,664 | 8,664 | 9,000 | 11,000 | 8,800 | | | 11,000 |
| Bean Imports | 650 | 0 | 0 | 700 | 0 | 0 | | | 0 |
| Roast & Ground Imports | 45 | 700 | 700 | 40 | 400 | 740 | | | 600 |
| Soluble Imports | 0 | 0 | 0 | 0 | 0 | 0 | | | 0 |
| Total Imports | 695 | 700 | 700 | 740 | 400 | 740 | | | 600 |
| Total Supply | 10,770 | 10,775 | 10,775 | 10,594 | 12,209 | 10,349 | | | 11,899 |
| Bean Exports | 7,941 | 7,816 | 7,816 | 8,300 | 9,300 | 8,100 | | | 9,200 |
| Rst-Grnd Exp. | 50 | 100 | 100 | 50 | 100 | 50 | | | 100 |
| Soluble Exports | 725 | 800 | 800 | 700 | 800 | 700 | | | 900 |
| Total Exports | 8,716 | 8,716 | 8,716 | 9,050 | 10,200 | 8,850 | | | 10,200 |
| Rst,Ground Dom. Consum | 900 | 950 | 950 | 800 | 950 | 900 | | | 900 |
| Soluble Dom. Cons. | 300 | 300 | 300 | 300 | 300 | 300 | | | 300 |
| Domestic Use | 1,200 | 1,250 | 1,250 | 1,100 | 1,250 | 1,200 | | | 1,200 |
| Ending Stocks | 854 | 809 | 809 | 444 | 759 | 299 | | | 499 |
| Total Distribution | 10,770 | 10,775 | 10,775 | 10,594 | 12,209 | 10,349 | | | 11,899 |
| Exportable Production | 7,464 | 7,414 | 7,414 | 7,900 | 9,750 | 7,600 | | | 9,800 |